

Message Text

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PAGE 01 BRASIL 01680 01 OF 02 041304Z
ACTION EB-08

INFO OCT-01 ARA-06 EUR-12 ISO-00 AGRE-00 STR-04 IO-13
ITC-01 COME-00 SP-02 L-03 TRSE-00 CIAE-00 INR-07
NSAE-00 SS-15 NSC-05 AF-08 EA-07 /092 W
-----041803Z 021556 /41

P R 041100Z MAR 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 0360
INFO AMEMBASSY LONDON
AMEMBASSY BOGOTA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 1680

DEPT PASS DLHUME, ADMINISTRATOR FAS/USDA

E.O. 11652: GDS
TAGS: EAGR, BR
SUBJECT: COFFEE SITUATION

REF: (A) BRASILIA 1239 (B) BRASILIA 1250 (C) BRASILIA 1411
(D) AGATT REPORT BB-7010

1. SUMMARY. IBC REVISED COFFEE STOCK ESTIMATES CONFIRMED BY IBC PRESIDENT CALAZANS MAR. 1 INDICATE BRAZIL'S TOTAL COFFEE SUPPLY FOR THE PERIOD JULY 1, 1975 TO DEC. 31, 1976 WAS SOME 7-8 MILLION BAGS HIGHER THAN WAS MADE PUBLIC BY IBC DURING THAT PERIOD. THIS LARGER SUPPLY EXPLAINS HIGHER THAN EXPECTED 1976 EXPORTS, HIGHER THAN EXPECTED STOCK LEVEL ON DEC. 31, 1976 AND CONTINUING VERY HIGH LEVEL EXPORTS IN 1977. END SUMMARY.

2. AGATT AND ECONOFFICER MET WITH IBC PRESIDENT CALAZANS AT IBC BRASILIA OFFICE MAR. 1 AND DISCUSSED COFFEE PRODUCTION, CONSUMPTION, STOCKS AND EXPORTS. ALSO ATTENDING THIS MEETING
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PAGE 02 BRASIL 01680 01 OF 02 041304Z

WAS BRAZILIAN FOREIGN MINISTRY OFFICIAL, ANTONINO MARQUES PORTO, ASSISTANT FOR INTERNATIONAL AFFAIRS, WHO HAS BEEN ASSIGNED TO WORK IN THE IBC BRASILIA OFFICE.

3. WE WERE WARMLY RECEIVED BY CALAZANS. HE INFORMED US OF HIS FEB. 28 LETTER TO ASSISTANT SECRETARY KATZ IN WHICH HE OFFERED TO WORK WITH USDA OFFICIALS TO RESOLVE PRODUCTION

ESTIMATE DIFFERENCES.

4. CALAZANS STATED THE CURRENT IBC ESTIMATE FOR THE FORTHCOMING 1977/78 COFFEE HARVEST, WHICH BEGINS IN MAY, IS 14.8 MILLION BAGS. HE OFFERED TO PROVIDE THE EMBASSY WITH THE IBC PRODUCTION ESTIMATES BY STATE, AND SUGGESTED THAT WE WORK CLOSELY WITH DR. MAURO MOITINHO MALTA, CHIEF, ECONOMIC STUDIES DEPT., IBC, RIO, ON COFFEE PRODUCTION AND EXPORT MATTERS. (COMMENT. CONGEN RIO HAS EXCELLENT CONTACT WITH MALTA. END COMMENT.)

5. WHEN ASKED FOR HIS VIEWS ON DOMESTIC COFFEE CONSUMPTION. CALAZANS REPLIED QUOTA CONSUMPTION IS SOMEWHERE BETWEEN 6 AND 8 MILLION BAGS ANNUALLY, END QUOTE. HE WENT ON TO DESCRIBE THE MANY PROBLEMS INVOLVED IN ESTIMATING DOMESTIC CONSUMPTION, AND COMMENTED THAT THERE DOES NOT APPEAR TO BE ANY DECLINE IN DOMESTIC CONSUMPTION DUE TO HIGHER PRICES. HE ENDED HIS COMMENTS BY SAYING QUOTE DOMESTIC CONSUMPTION IS ABOUT 7 MILLION BAGS, END QUOTE.

6. WE DISCUSSED BRAZIL'S COFFEE STOCK SITUATION IN CONSIDERABLE DETAIL. CALAZANS CONFIRMED TOTAL STOCKS ON DEC. 31, 1976 OF 21.2 MILLION BAGS. THE DISCREPANCY BETWEEN STOCKS VERIFIED BY THE ICO AND REVISED IBC STOCK ESTIMATES FOR MAR. 31, 1976 (REF B) APPEAR TO BE RESOLVED. WHEN QUESTIONED ON THIS DISCREPANCY CALAZANS STATED EMPHATICALLY QUOTE TOTAL STOCKS, IBC AND PRIVATE, AS OF MAR. 31, 1976 WERE ABOUT 5 MILLION BAGS HIGHER THAN THE 24.8 MILLION BAGS VERIFIED BY THE ICO ON THAT DATE. END QUOTE. HE SAID THE ICO VERI-CONFIDENTIAL

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PAGE 03 BRASIL 01680 01 OF 02 041304Z

FICATION DID NOT INCLUDE FARM OR PROCESSING PLANT STOCKS. WHEN AGATT MENTIONED RECENT IBC REPORTS WHICH SHOW TOTAL STOCKS OF 32.6 MILLION BAGS FOR MAR. 31, 1976 (REF B) CALAZANS AGAIN STATED EMPHATICALLY, QUOTE, THAT FIGURE IS WRONG, OUR BEST ESTIMATE IS THAT TOTAL STOCKS ON THAT DATE WERE 5 MILLION BAGS HIGHER THAN THE ICO VERIFIED STOCKS. END QUOTE. CALAZANS SAID THAT BRAZIL WOULD HAVE DEC. 31, 1977 STOCKS OF QUOTE ABOUT 17 MILLION BAGS WITH ALL BUT ABOUT 100,000 BAGS OF THIS TOTAL IN PRIVATE HANDS, END QUOTE.

7. WHEN ASKED FOR HIS ESTIMATE OF CURRENT STOCKS IN THE IBC WAREHOUSES IN TRIESTE, TOKYO AND HAMBURG, CALAZANS APPEARED SURPRISED AND UNEASY AS HE GAVE US HIS RESPONSE. HE STATED QUOTE THESE ARE ONLY WORKING STOCKS AND THE LEVEL IS LOW. WE HAVE NO STOCKS IN HAMBURG ND ONLY ABOUT 500,000 BAGS IN TRIESTE AND A TOTAL OF 250,000 BAGS IN TOKYO AND BEIRUT. END QUOTE. CALAZANS SEEMED UNSURE OF THESE OVERSEAS STOCK FIGURES AND ENDED HIS COMMENT BY SAYING QUOTE THE OVERSEAS WAREHOUSES WILL PROBABLY BE CLOSED BY THE END OF THE YEAR AND

PROBABLY WILL NOT BE OPENED AGAIN FOR 20 YEARS. END QUOTE.

8. CALAZANS APPEARED VERY PLEASED WITH BRAZIL'S COFFEE EXPORT EARNINGS SITUATION, BUT DID EXPRESS CONCERN REGARDING THE LONG TERM IMPACT OF THE CURRENT HIGH PRICES. HE SHOWED US A CHART INDICATING 3.2 MILLION BAGS WERE EXPORTED IN JAN-FEB 1977 AND ANOTHER 3.8 MILLION BAGS HAD ALREADY BEEN REGISTERED FOR EXPORT DURING THE PERIOD MAR 1-MAY 30, 1977. HE SAID THE IBC EXPORT TARGET IS 12 MILLION BAGS FOR CY 1977. WHEN PRESSED FOR HIS PERSONAL VIEW REGARDING TOTAL CY 1977 EXPORTS HE SMILED AND SAID QUOTE EXPORTS COULD EASILY AVERAGE 1.5 MILLION BAGS MONTHLY FOR A TOTAL OF 18 MILLION BAGS FOR THE YEAR, END QUOTE. HE SAID THAT EXPORT EARNINGS THIS YEAR FROM COFFEE, ASSUMING 12 MILLION BAGS ARE EXPORTED, COULD TOTAL ABOUT \$3.6 BILLION. HE DID NOT GIVE HIS VIEW OF EXPORT EARNINGS OF 18 MILLION BAGS ARE EXPORTED DURING CY 1977.

CONFIDENTIAL

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PAGE 01 BRASIL 01680 02 OF 02 041735Z
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P R 041100Z MAR 77
FM AMEMBASSY BRASILIA
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INFO AMEMBASSY LONDON
AMEMBASSY BOGOTA
/AMCOSUL RIO DE JANEIRO 6884
AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 1680

DEPT PASS DLHUMZ, ADMINISTRATHN FAS/USDA

9. WHEN ASKED FOR HIS PERSONAL VIEWS REGARDING THE FUTURE SUPPLY-DEMAND SITUATION CALAZANS REPLIED QUOTE 1978 WILL BE THE CRITICAL YEAR BECAUSE PRODUCING COUNTRIES WILL HAVE ONLY THEIR PRODUCTION SINCE THEIR STOCKS WILL BE EXHAUSTED. THERE WILL BE A COFFEE SHORTAGE FOR THE NEXT 2 YEARS. BEYOND THAT SUPPLY-DEMAND WILL BE IN CLOSE BALANCE FOR 5 YEARS, AND 10 MORE YEARS WILL BE NEEDED TO BUILD UP STOCKS, END QUOTE.

10. EMBASSY COMMENT. THIS MEETING WAS VERY USEFUL IN

RESOLVING DISCREPANCIES RELATING TO COFFEE STOCKS AND DOMEYTIC COFFEE CONSUMPTION. CALAZANS' CURRENT ESTIMATE OF MAR. 31, 1976 TOTAL STOCKS (29.8 MILLION BAGS) IS SUPPORTED BY THE IBC REVISED STOCK ESTIMATE RPSENTED TO THE ICO IN JAN. 1977 (29.9 MILLION BAGS) (REF B), PRIVATE TRADE STOCK ESTIMATES FOR THAT DATE OF ABOUT 30.0 MILLION BAGS (REF C) AND AGATT CALCULATION OF STOCKS FOR THAT DATE 30.5 MILLION BAGS (REF C).

11. THE FOLLOWING COFFEE SUPPLY-DISTRIBUTION TABLE FOR THE
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PAGE 02 BRASIL 01680 02 OF 02 041735Z

PERIOD MAR. 31, 1976 TO DEC. 31, 1976 UTILIZES IBC PRESIDENT CALAZANS' 29.8 MILLION BAG MAR. 31, 1976 STOCK ESTIMATE, CALAZANS' ESTIMATE OF 7.0 MILLION BAGS ANNUAL DOMESTIC CONSUMPTION, CALZANS' DEC. 31, 1976 ENDING STOCK ESTIMATE (21.2 MILLION BAGS) PROVIDED TO THE PRESS FEB. 7, 1977 (REF D) AND CONFIRMED BY CALAZANS AT THIS MEETING, AND OFFICIAL IBC MONTHLY EXPORT DATA. COFXEE PRODUCTION FOR THE 1976 HARVEST (MAY-AUG 1976) IS A RESIDUAL IN THE FOLLOWING CALCULATION:

MILLION BAGS

STOCKS, MAR. 31, 1976	29.80	
LESS EXPORTS, APR-JUNE 1976	H	3.94
LESS CONSUMPTION, APRGAJUNE 1976		1.75
STOCKS, JUNE 30, 1976	24,.1	
PRODUCTION (FROM MAY-AUG 1976 HARVEST)		9.30
H		
TOTAL SUPPLY, JULY 1, 1976	33.41	
EXPORTS, JULY-DEC 1976	8.71	
CONSUMPTION JULY - DEC 1976		3.50
STOCKS DEC. 31, 1976	21.20	
TOTAL DISTRIBUTION JUL-DEC 1976	33.41	

THE ABOVE CALCULATION USING THE LATEST IBC DATA INDICATES 1976 COFFEE PRODUCTION WAS ABOUT 9.3 MILLION BAGS. THE OFFICIAL IBC ESTIMATE OF THE 1976 HARVEST IS ONLY 6.0 MILLION BAGS (REF A).

12. SINCE THE JULY 1975 FREEZE IBC PRESIDENT CALAZANS HAS CONSISTENTLY PROVIDED THE PRESS WITH LOW FORECASTS OF FUTURE EXPORTS. IN LATE 1975 HE STATED REPEATEDLY THAT DWAZIL COULD NOT EXGRT MORE THAN 12 MILLION BAGS IN CY 1976. CY 1976 EXPORTS TOTALED 15.6 MILLION BAGS. IN MID-1976 HE STATED THAT COFFEE YEAR 1976-77 EXPORTS (JUL 1, 1976-JUN 30, 1977) COULD NOT EXCEED 12 MILLION BAGS. EXPORTS DURING JUL 1976-FEB 1977
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 01680 02 OF 02 041735Z

REACHED 11.9 MILLION BAGS AND THE TOTAL FOR THE JUL-JUNE YEAR IS NOW EXPECTED TO BE 16-18 MILLION BAGS. ON FEB 28, 1976 CALAZANS TOLD THE PRESS, QUOTE, WE SHOULD NOT EXPORT MORE THAN 12 MILLION BAGS THIS YEAR BECAUSE IN 1978 WE WOULD NOT HAVE STOCKS, END QUOTE. IN OUR MAR 1 MEETING CALAZANS SEEMED CONFIDENT THAT EXPORTS IN CY 1977 WOULD BE WELL ABOVE 12 MILLION BAGS. HE STATED THAT DEC. 31, 1977 STOCKS WOULD BE ABOUT 17 MILLION BAGS.

13. ON FEB. 7, 1977 CALAZANS RELEASED TO THE PRESS A SUPPLY-DISTRIBUTION TABLE WHICH REVISED, UPWARD, IBC'S TOTAL JULY 1, 1975 BEGINNING STOCKS EESTIMATE FROM 21.0 TO 25.4 MILLION BAGS. (REF D). NO EXPLANATION WAS GIVEN FOR THIS MAJOR STOCK ADJUSTMENT.

14. AGATT BELIEVES CURRENT IBC ESTIMATE OF FORTHCOMING 1977/78 COFFEE HARVEST (14.8 MILLION BAGS) IS LOW AND IS CURRENTLY ESTIMATING THAT CROP AT 17.0 MILLION BAGS. ANOTHER EXTENSIVE FIELD TRIP TO ALL PRODUCING AREAS WILL BE MADE IN APRIL, AND THIS PRELIMINARY ESTIMATE MAY BE ADJUSTED UPWARD OR DOWNWARD AT THAT TIME.

15. AGATT ANALYSIS OF ALL REVISED IBC STOCK ESTIMATES, IBC PRODUCTION ESTIMATES, OFFICIAL EXPORT DATA, AND CONSUMPTION ESTIMATES SINCE THE 1975 FREEZE INDICATE THE FOLLOWING:

- (A) THE IBC UNDERESTIMATED THE 1975/76 HARVEST BY 2.0 MILLION BAGS;
- (B) THE IBC UNDERESTIMATED JUL 1, 1975 BEGINNING STOCKS BY 2.0 MILLION BAGS;
- (C) THE IBC UNDERESTIMATED THE 1976/77 HARVEST BY 3.5 MILLION BAGS.

A REVISED AGATT JUL 1, 1975-JUN 30, 1977 SUPPLY-DISTRIBUTION TABLE IS CONTAINED IN REF C. THAT TABLE DOES NOT INCLUDE IBC STOCKS IN OVERSEAS WAREHOUSES.

CONFIDENTIAL

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PAGE 04 BRASIL 01680 02 OF 02 041735Z

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Message Attributes

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